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INFO RUEHZA/WHA CENTRAL AMERICAN COLLECTIVE PRIORITY
RUEHCV/AMEMBASSY CARACAS PRIORITY 0544
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RUCPDOG/DEPT OF COMMERCE WASHDC PRIORITY
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RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
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C O N F I D E N T I A L SECTION 01 OF 04 TEGUCIGALPA 000368

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STATE FOR D, E, P, AND WHA
STATE FOR S/ES-O MMILLER AND MSANDELANDS
TREASURY FOR AFAIBISHENKO
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TAGS: [EPET](#) [ENRG](#) [PREL](#) [BBSR](#) [NI](#) [VE](#) [HO](#)

SUBJECT: OFFSTAGE, HONDURAN FUELS ISSUE NEARS RESOLUTION;
ONSTAGE, THE THEATRE OF THE ABSURD

REF: A) TEGU 336 AND PREVIOUS

Classified By: AMB Charles Ford for reasons 1.4 (b,d)

11. (C/NF) Summary: President Zelaya continues to shift his position on fuels to one increasingly aligned with the USG market-orientation. His public remarks have moderated significantly, triggering suspicion and even attacks from his former allies in the fight to nationalize fuel imports that he has now abandoned. It is important to discern the difference between Zelaya's previous public remarks, which were largely political theatre, from the real developments taking place off-stage. Much of this confusion was cleared away in a GOH communique dated February 22, that makes it explicit that the GOH does not expect to continue the bid solicitation process, does not foresee signing a monopoly supplier contract with Conoco, and reiterates its belief that the only way to guarantee the best prices for the consumer is to move towards a more open and competitive fuels market. Texaco has submitted a formal proposal and is optimistic a deal is ready to be signed. GOH advisor Arturo Corrales has reportedly been tasked with drafting a new GOH decree memorializing this historic decision, but we won't truly believe we have a deal until the new decree is promulgated. End Summary.

12. (SBU) The continuing saga of the GOH plan to either nationalize or liberalize the fuels import sector lately appears to be more farce than tragedy. Politicians are openly accusing each other of political theatre, the press now mocks the process as a "soap-opera," and the melodramatic posturing of leader of the Patriotic Coalition Juliette Handal has begun to alienate even some members of the public. At heart, however, the critics are correct: nearly all of the public remarks of the last week have indeed been political theatre, while a potentially durable solution to this self-inflicted crisis has been quietly negotiated off-stage.

The Cast

¶3. (SBU) The Hero: President Jose Manuel "Mel" Zelaya Rosales continues to play the leading man, portraying himself as steadfast in his defense of the Honduran consumer and defiant in the face of (he would have us believe) overwhelming opposition from the international oil companies. That said, his public rhetoric has shifted recently from the two-dimensional populism of last year (attacking the "commercial tyranny" of "warmongering multinationals") to that of a more nuanced, three-dimensional character. Zelaya now openly proclaims the virtues of market opening and increased competitiveness.

¶4. (SBU) The Sidekick: Arturo Corrales, one of the original members of the Commission of Notables formed to seek lower fuel prices, provides running commentary on events as they develop, patiently and calmly explaining to the audience what is happening on stage. While his actions will prove to be key in the victory by the good-guys, he nevertheless politely declines to take any credit, pointing instead to the President as the courageous man of action.

¶5. (SBU) The Chorus: Led by Minister Counselor for Legal Affairs Enrique Flores Lanza, the supporting players amplify the central themes established by the President. When Zelaya attacked the IOCs, the chorus was vitriolically anti-multinational. Now that the President has shifted to a free-market stance, the chorus sings the praises of competition. Though not the most important players on stage, the Chorus often drowned out the other dialogue, striving instead to sway the audience through repetitive emotional appeals.

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¶6. (SBU) The Jilted Lover: Juliette Handal, leader of the Patriotic Coalition and zealous supporter of nationalization, began Act I as the object of the President's political affections. Blind to her flaws, he courted her and showered her with support, adopting her cause as his own. By Act III, however, the President has had a change of heart: he has resolved to leave her and instead seeks to find an accommodation with the oil companies. Playing every inch the spurned lover, Handal has accused the President of treachery and betrayal, and vowed that "God would judge him" for his actions. She sought public sympathy with an allegedly broken arm (one that equally mysteriously was healed a week later), and darkly accused "outside forces" of trying to destroy her and her plan for nationalization of the oil sector. Her increasingly shrill statements have left some observers (including the radio commentators who hosted one of her recent interviews) wondering aloud about her emotional stability. Many, however, have merely tired of her over-emoting in her role as perpetual victim, and wish she would just exit the stage.

¶7. (SBU) The Mad Scientist: The U.S. citizen consultant who designed the nationalization scheme was introduced to the audience as the expert who would assist the President in saving the day. Recently, however, public opinion has turned on him, as questions have been raised about his ethics, and about whether his elaborate scheme was ever a good idea. Even Juliette Handal, a long-time friend and the person who brought him into this production, now publicly shuns him and declares that she barely knows him. He has, as the press delights in pointing out, become a soap opera caricature: the good-guy turned bad-guy. Some now wonder whether he will be forced to flee in the night, pursued by a crowd bearing pitchforks and torches. (Note: Both his lionization last year and his demonization more recently are overdone, and Post has no evidence of any illegal acts on his part. End note.)

¶8. (SBU) The Innocent Man, Wrongly Accused: The international oil companies found themselves cast in the role of villain. At first they tried to persuade the audience

that they were innocent of the crimes of which they stood accused, but their early dialogue was poorly written and poorly delivered, and left the audience unconvinced and unmoved. The President's charismatic and populist rhetoric held them in its sway. By Act II, the companies had realized it is not the audience, but the President who must be convinced, and that they could only do this off-stage. Yet they remained troubled by the disconnect between the content of those private talks and the President's words on stage. Post reminded the companies that the President's fiery speeches on stage are, after all, theatrics, and that the more meaningful words are those he says in private.

¶9. (SBU) The audience: The Honduran public continues to watch the action, more bemused than amused. As the plot twists become increasingly improbable, the artifice has worn off and the public has begun to see through to the true story underneath. The President remains popular for his defense of lower prices, even if the public is no longer sure if they entirely believe him. Some have gradually appreciated Corrales' repeated presentations and they now understand some of the core market concepts. (This will also help the President sell his new strategy when the time comes.) Some of those that Corrales could not rally through reasoned argument have been brought along through sentiment as Flores Lanza and others continue to drive home the key messages. The Honduran public is increasingly suspicious of the consultant, and some have grown tired of Handal relentlessly overplaying her part.

This Week's Exciting Chapter

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¶10. (C/NF) On February 19, a delegation of senior officials from U.S. oil company ChevronTexaco met with GOH officials to seek a resolution to the current situation. They emerged from talks "calm" and "comfortable" that they understood what the GOH needed from them in order to accept a deal. On February 21, ChevronTexaco presented a formal offer to the GOH, outlining their proposal for restructuring the fuel pricing formula in a way that would allow the GOH to claim price reductions, while safeguarding the long-term interests of the company and setting Honduras on a path towards rapid market liberalization. On February 23, ChevronTexaco representatives told EconChief that the offer had been well received by Zelaya, and that they were confident a deal might be announced the week of February 26.

¶11. (C/NF) In the meantime, Handal openly and increasingly stridently accused the GOH of conspiring to undermine the fuel import nationalization scheme and of seeking an arrangement with the IOCs. (Comment: In this, she was absolutely correct. She hoped that by saying this aloud, the public would rise up and demand the GOH return to the nationalization process. That they have not done so must be a bitter disappointment to her. End comment.) When her denunciations of GOH perfidy failed to rouse a public outcry, Handal took the most drastic step remaining to her: she and the other "witnesses of honor" to the nationalization process resigned. Their resignations went largely unnoticed, and within a day had disappeared from the news. The President, when asked later about the resignations, merely thanked the witnesses for their hard work and support throughout the process. This left the impression (carefully cultivated by Corrales as well) that the fuel imports bid solicitation process had not broken down, but had simply run its course. The GOH, Corrales implied, is not abandoning the process so much as moving beyond it in search of bigger savings and better efficiency improvements. In the minds of the public, Handal's resignation -- intended to be in protest -- thus became instead her stepping down at the conclusion of a long but fruitful process. Making another attempt to rally her waning base of support, Handal has called for another meeting of the Patriotic Coalition to "endorse" the resignations and

call on the GOH to continue forward with the nationalization process.

¶12. (C/NF) Reportedly on the advice of the U.S. citizen consultant working for the GOH, U.S. firm ConocoPhillips submitted a signed contract to the GOH for approval. (Note: Under the nationalization scheme, Conoco was to have been awarded a contract as the monopoly supplier of fuels to Honduras, excluding from the market several current suppliers, including U.S. firms Texaco and Esso. End note.) The GOH objected that Conoco had made substantial changes to the draft contract, that those changes would need to be reviewed and agreed upon, and therefore it was inappropriate and disrespectful for Conoco to have submitted the contract already signed. Allegations quickly spread that the U.S. consultant had "negotiated" a deal with the firm without the GOH's consent. Other stories circulated that the consultant sought to claim his USD 1 million bonus for cost savings, even though those savings resulted from GOH action on pricing and not from the consultant's work on the import scheme. (Comment: According to GOH sources, this is accurate. The consultant's contract apparently does give him credit for changes to domestic policies that result in savings, and not just for savings resulting from his own work on imports. When informed of this fact, President Zelaya was reportedly furious. End Comment.)

¶13. (C/NF) As a result, the public is demonizing the consultant, and the press portrays him as treacherous and greedy. Conoco, meanwhile, has not made any public statements in over two weeks, nor has it sent a delegation to meet with the GOH. Conoco had given the GOH until February 24 to resolve the pending issue of storage facilities and to

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sign a contract with them. Since that deadline has now arrived with no deal and no likelihood of such a deal, Post assesses that Conoco might be losing interest in concluding this relatively minor but increasingly nettlesome matter. (At only 8 million barrels of product per year, a Conoco official recently told EconChief the deal was "peanuts" for the firm.)

¶14. (C/NF) DIPPSA President Henry Arevalo remains in hiding, seeking to avoid being served with a court order to allow GOH use of his oil storage facilities. The GOH's inability to secure these facilities held up and might in the end have scuttled the import nationalization plan and the resulting Conoco deal. Recently, DIPPSA has appealed the original ruling, further dragging out the proceedings. (Comment: Post assesses that these dilatory tactics are deliberate and have likely been approved by Zelaya. It is clear that by January 18 Zelaya had decided not to pursue a nationalization scheme. He therefore needed time to shift his position and prepare the public for his decision not to sign with Conoco. DIPPSA's refusal to turn over its tanks and subsequent legal maneuvering gave Zelaya the time he needed. End Comment.)

¶15. (SBU) On February 22, Zelaya made his intentions plain for all to see. Flanked by Vice President Elvin Santos and Foreign Minister Milton Jimenez, Zelaya released a GOH communique on the fuel situation. Among its five brief points, the communique requires that the IOCs continue to offer the lowest possible fuels prices. It also says the GOH will not sign with Conoco ("for now"); will promote renewable energy; and will halt the bid solicitation process ("for reasons entirely outside the control" of the GOH). The key sentence, however, appears in point five, in which the GOH "holds that the only way to benefit consumers with fair prices is by opening the market to true competition, guaranteed by the state and in the national interest."

¶16. (C/NF) Comment: With each of his action over the last three weeks, Zelaya has strengthened our credence in his claims that he has embraced the idea of market competition as the only durable long-term solution to his fuel import

concerns. We are far less concerned about the theatrics, whether his or the oppositions', and we have the impression that the Honduran public's attention is also waning. As Flores Lanza recently told EconChief, "The public doesn't care if we sign the contract (with Conoco.) They already have their savings." We do not discount the possibility that Handal will seek to stir up social unrest in reaction to her defeat. However, it seems clear that Zelaya has steeled himself to deal firmly with her, should the need arise. (This impression was further reinforced by his surprise decision two weeks ago to use troops to clear protestors from a highway in Olancho. Zelaya is clearly sending a signal to social groups that law and order will be imposed, and that taking highways -- one of Handal's favorite tactics -- will no longer be tolerated.) We are pleased Texaco is optimistic about a deal. Corrales has been instructed by Zelaya to meet with Petroleum Administration head Lucy Bu to craft a new decree memorializing the accord, but we won't truly believe we have a deal until the new decree is promulgated. In the meantime, the show must go on.

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